



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

August 14, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

August 14, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Allen County Sheriff as of August 14, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$4,605,048 for the districts for 2000 taxes. The Sheriff distributed taxes of \$4,602,866 to the districts for 2000 Taxes. Taxes of \$15 are due to the districts from the Sheriff and refunds of \$5 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$354,718 To Protect Deposits
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

Deposits:

As of December 7, 2000, the sheriff's deposits of \$354,718 were underinsured and uncollateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the Allen County Sheriff's Settlement - 2000 Taxes as of August 14, 2001. This tax settlement is the responsibility of the Allen County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Allen County Sheriff's taxes charged, credited, and paid as of August 14, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2001, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Members of the Allen County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$354,718 To Protect Deposits
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 14, 2001

ALLEN COUNTY
BILL FOSTER, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

As of August 14, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 333,917	\$ 755,424	\$ 1,912,837	\$ 518,110
Tangible Personal Property	61,624	156,474	324,018	263,751
Intangible Personal Property				58,845
Fire Protection	1,841			
Taxes Increased Through Erroneous				
Assessments	268	1,056	1,529	407
Franchise Corporation	30,298	74,472	162,849	
Additional Billings	464	1,044	257,197	719
Oil and Gas Property Taxes	128	289	735	199
Limestone, Sand, and Mineral Reserves	92	208	529	143
Penalties	3,930	8,883	22,341	7,816
Adjusted to Sheriff's Receipt	<u>(30)</u>	<u>(44)</u>	<u>(1,236)</u>	<u>462</u>
Gross Chargeable to Sheriff	<u>\$ 432,532</u>	<u>\$ 997,806</u>	<u>\$ 2,680,799</u>	<u>\$ 850,452</u>
<u>Credits</u>				
Exonerations	\$ 2,360	\$ 5,907	\$ 13,453	\$ 4,015
Discounts	5,794	13,372	32,488	12,761
Delinquents:				
Real Estate	8,998	20,213	51,447	13,923
Tangible Personal Property	117	298	616	485
Uncollected Franchise	<u>2</u>	<u>5</u>	<u>10</u>	
Total Credits	<u>\$ 17,271</u>	<u>\$ 39,795</u>	<u>\$ 98,014</u>	<u>\$ 31,184</u>
Net Tax Yield	\$ 415,261	\$ 958,011	\$ 2,582,785	\$ 819,268
Less: Commissions *	<u>17,936</u>	<u>39,751</u>	<u>77,484</u>	<u>35,106</u>
Net Taxes Due	\$ 397,325	\$ 918,260	\$ 2,505,301	\$ 784,162
Taxes Paid	397,104	917,807	2,504,125	783,830
Refunds (Current and Prior Year)	<u>212</u>	<u>454</u>	<u>1,174</u>	<u>332</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$</u>

*and ** see page 4

ALLEN COUNTY
 BILL FOSTER, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 August 14, 2001
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,796,884
4% on	\$	385,656
3% on	\$	2,582,785

** Special Taxing Districts:

Library District	\$	(4)
Extension District		(1)
Soil Conservation District		1
Ambulance District		<u>3</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>(1)</u></u>

The accompanying notes are an integral part of the financial statement.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

August 14, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above.

ALLEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 14, 2001
 (Continued)

Note 2. Deposits (Continued)

However, as of December 7, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$354,718 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 7, 2000.

	<u>Bank Balance</u>
Insured by FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,544,977
Uncollateralized and uninsured	<u>354,718</u>
Total	<u><u>\$ 2,999,695</u></u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2000 through April 20, 2001.

Note 4. Interest Income

The Allen County Sheriff earned \$5,184 as interest income on 2000 taxes. As noted in the comments and recommendations section of this report, the Sheriff should distribute monthly the appropriate amount to the school district as required by statute, and the remainder should be used to operate the Sheriff's office. As of December 14, 2001, the Sheriff owes \$198 in interest to the school district and \$1,040 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Allen County Sheriff collected \$33,110 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of December 14, 2001, the Sheriff has properly distributed all 10% add-on fees to his fee account.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
August 14, 2001
(Continued)

Note 6. Advertising Costs And Fees

The Allen County Sheriff collected \$987 of advertising costs and \$2,260 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of December 14, 2001, the Sheriff has properly distributed all advertising costs to the county and all advertising fees to his fee account.

Note 7. Bond Coverage

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The Sheriff's county revenue bond appears to be adequate to protect the county from potential loss.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

ALLEN COUNTY
BILL FOSTER, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of August 14, 2001

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$354,718 To Protect Deposits
-

On December 7, 2000, \$354,718 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

- 2) The Sheriff Should Deposit Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002, Section 4, requires the Sheriff to deposit funds intact on a daily basis. During 2000 tax collections, funds were deposited intact. However, abnormal delays (more than three business days) were noted between dates received and dates deposited for tax collections. For tax collections tested, receipts were deposited two business days to thirteen business days after being received. We recommend the Sheriff deposit all tax collections intact daily.

Sheriff's Response:

None.

- 3) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "... that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2000 tax collections, the Sheriff earned interest of \$5,184 on his tax account. However, the Sheriff did not pay the interest to the board of education or the fee account on a monthly basis. As of August 14, 2001, the Sheriff owes \$198 in interest to the Allen County Board of Education and \$1,040 in interest to his fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) & (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response:

None.

ALLEN COUNTY
BILL FOSTER, SHERIFF
COMMENTS AND RECOMMENDATIONS
August 14, 2001
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

4) The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties over receipts is hereby noted as a reportable condition pursuant to professional auditing standards.

Sheriff's Response:

None.

5) Other Reportable Conditions

The following comments described above are noted as reportable conditions pursuant to professional auditing standards.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Sheriff's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The reportable conditions noted below are considered material weaknesses pursuant to professional auditing standards.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

Sheriff's Response:

None.

PRIOR YEAR:

In the prior year audit report, we made the following comment and recommendation.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$346,952 To Protect Deposits

This finding has not been corrected and has been commented on in the current audit report.

Sheriff's Response:

None.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Members of the Allen County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Allen County Sheriff's Settlement - 2000 Taxes as of August 14, 2001, and have issued our report thereon dated December 14, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Allen County Sheriff's Settlement - 2000 Taxes as of August 14, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$354,718 To Protect Deposits
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Internal Control Structure Over Receipts Of The Sheriff's Office Is Weak Due To A Lack Of Adequate Segregation Of Duties

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 14, 2001

